

# San Francisco Chronicle

## Bay Area home sales fall to 20-year low

By James Temple

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The Bay Area housing crisis is worsening on all counts, as the lack of credit and growing economic uncertainty extinguished hope for a quick turnaround in the new year.

January data show regional home sales dropping to a 20-year low and the median price falling nearly 9 percent. Nearly one-fifth of the properties that did trade hands in the Bay Area last month had been foreclosed upon last year.

"We're going through the painful transition toward pricing that is realistic and we're nowhere near that (yet)," said Christopher Thornberg, an economist and founding partner of real estate research firm Beacon Economics. "Even though your local real estate agent will tell you, it's OK in this neighborhood or it's a wonderful time to buy because interest rates are low, all that's wrong. If you're buying into this market, you're overpaying."

[Q&A: A good time to buy a home?]

A total of 2,312 resale homes sold in the nine-county Bay Area in January, down 43.7 percent from a year ago and 24.2 percent from December, according to DataQuick Information Systems. It's the lowest regional sales total in the two decades the La Jolla research firm has tracked the area and the 38th straight month of declines.

The median price paid for Bay Area existing single-family homes was \$585,000 last month, down 8.6 percent from a year ago - and the lowest level since February 2005 when it was \$576,000.

San Francisco resale home transactions declined 32.1 percent year-over-year to 152, another 20-year low, while the median price increased by 5.8 percent to \$820,000. When new homes and condos are included, the median price fell 0.8 percent to \$744,000. The median means that half the homes sold for more than that amount and half for less.

The largest price drops for existing single-family homes last month occurred in Solano and Contra Costa counties, at 22.5 percent and 20.4 percent, respectively, to \$333,000 and \$450,000.

The largest gain, 5.9 percent, was in Marin to \$990,000. Not coincidentally, those three counties also had the highest and lowest percentage of homes sold that were foreclosed upon at some point in 2007: 43 percent in Solano, 33.1 percent in Contra Costa and 1.8 percent in Marin.

"There's a clear correlation in statistics, whether at the county, city or ZIP code level," DataQuick analyst Andrew LePage said. "It's tugging down prices."

Banks want to unload foreclosed properties as quickly as possible to get them off their books, even though it typically means selling at a discount. Mary Coffin, executive vice president of loan servicing at mortgage giant Wells Fargo Home Mortgage, said bank-owned properties generally sell for 10 percent to 15 percent less than the amount that was previously owed on them.

Many go for even steeper discounts. Annie Brown, a Realtor with Zip Realty in Walnut Creek, said foreclosed homes in Brentwood that were \$700,000 a couple of years ago are now selling for \$450,000 to \$475,000.

"The bank-owned homes are really being priced to sell," she said.

The growing availability of these cheaper properties can depress the value of nearby homes that weren't foreclosed upon.

Another key reason sales are slowing is the continuing tightness in the credit market, LePage said. Since the liquidity crisis sparked last summer by rising default rates, it's become more difficult for people to qualify for mortgages, especially the jumbo loans above \$417,000 that are critical for many people hoping to get a piece of the region's costly real estate.

The percentage of Bay Area homes bought using a jumbo mortgage fell to 34.5 percent last month, down from 63 percent six months ago, DataQuick said.

Many Realtors believe an imminent change in the definition of jumbo loans could unleash a surge of demand. President Bush signed on Wednesday the federal economic stimulus package, which includes a provision to temporarily raise the cap on mortgages that Fannie Mae and Freddie Mac - quasi-government mortgage guarantors - can purchase to as high as \$729,750 in high-cost areas.

That could lower interest rates for people who would otherwise have needed a jumbo loan by a full percentage point. The office of Sen. Barbara Boxer, D-Calif., a proponent of the change, estimated that on a \$650,000, 30-year, fixed-rate mortgage, the eased limit could save homeowners \$417 a month. It's expected to take at least six weeks before people can take advantage of the new rates.

"It enables people who weren't even able to buy a home to get into the entry level and it will enable people to refinance out of some unfavorable loans," said Rick Turley, president of the San Francisco and Peninsula offices of Coldwell Banker. "It's really going to open up a lot."

Thornberg disagreed, arguing the higher limits won't address the fundamental problem in the California real estate market: housing is too expensive in relation to incomes. A report released Thursday by the California Budget Project said median household incomes aren't high enough to afford median-priced homes in every county it studied, 36 of the state's 58 counties.

A final reason people are sitting out the market is uncertainty, said Avram Goldman, chief executive officer of Pacific Union GMAC Real Estate. He believes there's ample demand in the market, particularly for high-end properties, but many people are holding off in the lower and middle levels because they're uncertain about the direction of prices. In other words, people are scared of buying a home and watching its value sink.

This matches up with the experience of Genevieve and Matt Garfinkle, both 33. The couple bought and moved into a \$1.7 million, four-bedroom Colonial home in the Rockridge neighborhood of Oakland a little before Thanksgiving. They're planning to expand their family and wanted more space.

The problem is they haven't sold their three-bedroom Mediterranean near Piedmont Avenue, on which they're still paying a monthly mortgage. It's been on the market since November and they lowered the price from \$834,000 to \$799,000 after New Year's. They've handed out many information packets at their open houses but still haven't received anything above what they consider lowball offers.

"All my open houses are very well attended," Genevieve Garfinkle said, "but they're not ready to pull the trigger yet."

David Rich and his fiancée, Erin Gaffaney, are ready to buy. The betrothed couple are about to pass the inspections phase of escrow for a Craftsman duplex in Rockridge, potentially their first home. They realize it's possible that prices could drop further or interest rates could improve, but they've been looking for nearly six months and the seller already lowered the price by \$40,000 to less than \$750,000. "A couple of months ago, it stopped being fun and started being work and stressful," Rich said. "We feel pretty good, the house feels right."

The median price of houses in Contra Costa County has dropped 20.4 percent since the beginning of 2007. The median price then, according to DataQuick, was \$565,000. In January, it was \$450,000.